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REPORT OF THE AUDIT OF THE
KNOTT COUNTY
SHERIFF

For The Year Ended
December 31, 2006

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Kathryn A. Thissen
Certified Public Accountant

The Honorable Randy Thompson, Knott County Judge/Executive
Honorable Ray E. Bolen, Knott County Sheriff
Members of the Knott County Fiscal Court

Independent Auditor's Report

I have audited the accompanying statement of revenues, expenditures, and excess fees – regulatory basis of the Sheriff of Knott County, Kentucky, for the year ended December 31, 2006. This financial statement is the responsibility of the Sheriff. My responsibility is to express an opinion on this financial statement based on my audit.

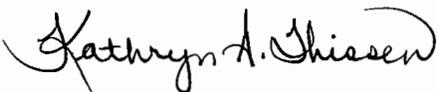
I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued a report dated August 31, 2007, on my consideration of the Sheriff's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Knott County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.



Kathryn A. Thissen
Certified Public Accountant

August 31, 2007

KNOTT COUNTY
RAY E. BOLEN, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES – REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

Federal:		
Corps of Engineers - Lake Patrol	\$	14,973
State:		
Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		17,046
Knott Drug Abuse Council Grant		12,220
School Resource Officer		20,000
State Fees For Services		85,993
Fiscal Court		296,737
County Clerk - Delinquent Taxes		2,389
Commissions on Taxes		159,123
Fees Collected for Services:		
Auto Inspections and Accident Reports	\$	5,792
Carrying Concealed Deadly Weapon Permits		4,760
Subpoenas and Summons		14,765
Jail Diversion		7,300
10% Add-On Penalty - Property Tax		22,287
Telecom Franchise Commissions		3,776
Sheriff's Fee on Late Tax Collections		4,150
		62,830
Miscellaneous		3,642
Interest Earned		1,750
Total Revenues		676,703

Expenditures

Operating Expenditures and Capital Outlay:	
Personnel Services-	
Deputies' Salaries	289,652
Employee Benefits-	
Employer's Share Retirement	27,076
Contracted Services-	
Payroll Services	3,089
Advertising	504
Carrying Concealed Deadly Weapon Permits	2,795

The accompanying notes are an integral part of the financial statement.

KNOTT COUNTY
 RAY E. BOLEN, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES – REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Materials and Supplies-		
Office Supplies	\$	4,489
Uniforms		5,612
Police Supplies		8,396
Radio Supplies		41,254
Other Charges-		
Convention and Travel		388
Transporting Prisoners		245
Dues		429
Bank Charges		308
Postage		4,268
Miscellaneous		1,184
Auto Expenses-		
Gasoline		9,594
Maintenance and Repairs		16,459
Capital Outlay-		
Office Equipment		2,780
Vehicles		53,694
		<hr/>
Total Expenditures	\$	<u>472,216</u>
Net Revenues		204,487
Less: Statutory Maximum		<u>69,342</u>
Excess Fees Due County for 2006		135,145
Payment to Fiscal Court- March 9, 2007		<u>135,145</u>
Balance Due Fiscal Court at Completion of Audit	\$	<u><u>0</u></u>

The accompanying notes are an integral part of the financial statement.

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent for the first six months and 28.21 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

KNOTT COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 4. State Grant

Kentucky Law Enforcement Foundation Program Fund (KLEFPF)

The Knott County Sheriff's office was awarded a grant under the Kentucky Law Enforcement Foundation Program Fund (KLEFPF) from the Commonwealth of Kentucky Department of Criminal Justice Training. Under the program, eligible officers received up to \$3,100 annually as provided in Kentucky Revised Statute 15.460. During calendar year ended December 31, 2006, Knott County Sheriff's office received \$17,046. All funds received were expended for their intended purpose.

Note 5. Knott Drug Abuse Council Incorporated

The Knott County Sheriff's department entered into a Memorandum of Understanding (MOU) with the Knott Drug Abuse Council, Inc. on March 2, 2005. The purpose of the MOU is to provide a framework for cooperation between the parties concerning the placement of a deputy at Knott County Central High School/ or any public school in the Knott County school system, as deemed necessary. The Knott Drug Abuse Council, Inc. provides funding for one (1) deputy to work during the school term. This deputy is to be utilized to promote a safe and ATOD free environment for the students of Knott County. This deputy may be used at any school deemed necessary by the Knott County Sheriff's department and the Knott County Board of Education. The Knott County Sheriff's office received \$12,220 from the Knott Drug Abuse Council, Inc., during the calendar year ended December 31, 2006.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Kathryn A. Thissen
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The Honorable Randy Thompson, Knott County Judge/Executive
Honorable Ray E. Bolen, Knott County Sheriff
Members of the Knott County Fiscal Court

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

I have audited the statement of revenues, expenditures, and excess fees – regulatory basis of the Knott County Sheriff for the year ended December 31, 2006, and have issued my report thereon dated August 31, 2007. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Knott County Sheriff's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Knott County Sheriff's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Knott County Sheriff's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in the internal control over financial reporting that I consider to be material weaknesses, as defined above.

Report On Internal Control Over Financial Reporting And On Compliance
And Other Matters Based On An Audit Of The Financial Statement
Performed In Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Knott County Sheriff's financial statement for the year ended December 31, 2006, is free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Knott County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.



Kathryn A. Thissen
Certified Public Accountant

August 31, 2007